



# County of Los Angeles

## CHIEF ADMINISTRATIVE OFFICE

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DAVID E. JANSSEN  
Chief Administrative Officer

Board of Supervisors  
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First District

YVONNE BRATHWAITE BURKE  
Second District

ZEV YAROSLAVSKY  
Third District

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Fourth District

MICHAEL D. ANTONOVICH  
Fifth District

June 20, 2003

To: Supervisor Yvonne Brathwaite Burke, Chair  
Supervisor Gloria Molina  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

From: David E. Janssen  
Chief Administrative Officer

### STATE BUDGET BACKGROUND FOR BUDGET DELIBERATIONS

As County budget deliberations begin, the State budget and its potential impact on the County is very uncertain. The attached table summarizes the tentative decisions of the Budget Conference Committee and compares them to the Governor's January and May recommendations. Many of the major items – especially those surrounding the VLF – remain open and subject to decision by the Big Five as part of an overall budget compromise. Consequently, it is impossible to report with certainty on the impact of State budget cuts on County revenues.

However, to provide some background and context for the Board's deliberations, it is useful to consider potential "best case" and "worst case" scenarios based upon what seems to be the alternatives under consideration regarding local government's contribution to the budget solution. Only one of the positions has been publicly presented or acknowledged, however, so there is necessarily some speculation in the analysis that follows.

As can be seen from the table, prior to taking an indefinite recess, the Conference Committee had agreed upon a number of smaller, less controversial budget items that would result in an estimated loss to the County of approximately \$73 million in revenue. Over half of that loss – \$40 million from the deferral of mandate reimbursements – would, under current law, be paid at some future time. Republicans have proposed to suspend rather than defer local mandates which would mean local governments would not be reimbursed but could suspend the mandated service until State reimbursement is

resumed. In either case, based on the budget decisions that have been made, the County will have at least \$73 million less revenue in the budget year than it would otherwise. We know that number will grow. The only question is how much.

For purposes of this analysis, it is assumed that the "open" items in the Conference Committee will continue to be funded at current levels and will not result in any loss to the County. (While that may not be the case, with the exception of the VLF, they do not have a major impact on the County.) Instead, rather than get bogged down in arguments about individual items, the Big Five are likely to focus on the amount of the contribution local governments will be required to make to the final budget solution. Related and significant issues that must also be decided include whether the cuts are permanent or one-time, the relative shares of various local governments (counties, cities, special districts and community redevelopment agencies), and how to implement the cuts.

While there are an infinite number of answers to the question of how large the local contribution could be, based on the major proposals that have been advanced, the lowest level is likely to be \$600 million, which Assembly Democrats proposed in April, and the highest is likely to be \$1.166 billion, which Senate Republicans are rumored to have proposed in a Big Five meeting. The \$1.166 billion number is supposedly based upon the total amount of local government reductions assumed in the May Revision that the Conference Committee did not address, including roughly \$800 million in lost backfill during the period before a VLF rate increase can be implemented.

Under the \$600 million scenario, \$100 million results from a one-time shift of redevelopment agency property taxes to schools, with the balance of \$500 million divided evenly between counties and cities based upon population. Los Angeles County's loss would be approximately \$70 million. Under the \$1.166 billion scenario, special districts would be responsible for 20 percent of the amount or \$233 million and counties and cities would split the balance of \$933 million. Assuming local shares are allocated based on population, Los Angeles County's contribution or loss would be \$130 million.

Despite the fact that special districts, which levy over \$2 billion in property taxes, were included in the 1990's property tax shifts, it has been suggested that legal and practical problems may prevent the State from collecting their \$233 million contribution. If that is the case, county and city shares could rise accordingly, resulting in a further loss to the County of \$33 million.

The issue of whether the local government cut will be one-time or permanent will, in large part, be determined by how the cut is done. To achieve over a billion dollars of savings on a permanent basis, the State would probably have to increase the local government property tax shift. While that method was used twice during the budget

crises of the early 1990's, it would be more difficult to use today because so many school districts are already fully funded by property taxes. Moreover, it would be very controversial since it has never been discussed as an option and would only shift the State's fiscal crisis to local governments rather than solving it, causing unpopular cuts in essential services such as public safety.

Another way to achieve a cut of this magnitude would be to withhold the VLF backfill of local governments for two or three months prior to implementation of a rate increase. On Friday, June 20, 2003, The Department of Finance, citing current law which calls for a reduction of VLF offsets when there is insufficient moneys to fund them, initiated a process that should restore the original VLF rate. According to the *Los Angeles Times*, it will take 30 days to make computer and administrative changes necessary to send out notices reflecting the higher rate. Moreover, under current law, vehicle owners must receive their registration notice 64 days in advance of its expiration. Consequently, unless the law is suspended to shorten the notice period, which would require a two-thirds vote (which would require Republican votes), the earliest the higher rates could take effect is probably September 1, 2003.

This three month delay, however, will not yield any savings for the State, because the Governor's budget, the yardstick for measuring the impact of budget decisions, already assumes that the backfill will end after the June payment. Unless current law is changed to repeal the continuing or automatic appropriation of the VLF backfill, the State may be responsible for continuing the backfill payments during the interval even though they have not been budgeted. The State Controller, whose agency writes the backfill checks, has indicated that absent a law change, he would continue the payments. As a result, the State could be faced with a very unusual situation. If it continues to make payments to local governments, as required by law, the budget problem will grow by about \$330 million each month – the cost of the backfill. However, if it changes the law to suspend the backfill, it will add nothing more to the solution of the budget problem. From the State's perspective, it must repeal the continuing appropriation (or suspend it by administrative action) to stop the backfill and keep the budget problem from growing. The bad news is that cities and counties will lose roughly a billion dollars, including approximately \$189 million by the County. The good news is that the cut will be one-time, not permanent.

**Based on this analysis, under the best case scenario of a \$600 million local government cut, the County will lose \$70 million in addition to the \$73 million from Conference Committee actions for a total impact of \$143 million. Under the worst case scenario of a three month suspension of the VLF backfill, the County will lose \$189 million in addition to the \$73 million for a total of \$262 million. As bad as that would be, it is less than half of the impact of the Governor's January budget proposal. Most importantly, virtually all of the loss would be one-time in nature.**

### **Implications for the County's Advocacy Efforts**

- Given the choice between a \$600 million local government cut (\$70 million to the County) and a \$1.166 billion cut (\$189 million to the County), the choice is easy. However, limiting the cut to \$600 million is probably dependent upon a temporary sales tax increase (as well as a speed-up in the collection of the higher VLF). The Board has never taken a position on the proposed increase.
- If the local government contribution turns out to be \$1.166 billion, it is critical that special districts are part of the local contribution. Otherwise, counties will have to contribute more and the potential additional loss to the County is \$32 million.
- It is imperative that the administrative process and notification period for the VLF notification be speeded-up by at least a month. Although the amount of the increase has been known for months, the required computer programming changes have not been made to allow the immediate notification reflecting the new rates concomitant with pulling the trigger. Shortening the notice period to 34 days would affect only a fraction of vehicle owners, but it would save the County \$89 million at no cost to the State.

We will continue to keep you advised.

DEJ:GK  
MAL:JL:DS:EW:ib

### **Attachment**

c:     Executive Officer, Board of Supervisors  
       County Counsel  
       Local 660  
       All Department Heads  
       Legislative Strategist  
       Coalition of County Unions  
       California Contract Cities Association  
       Independent Cities Association  
       League of California Cities  
       City Managers Associations

**ESTIMATED LOSS TO LOS ANGELES COUNTY  
FROM STATE BUDGET REDUCTIONS  
(DOLLARS IN MILLIONS)**

	JANUARY FY 02-03		MAY FY 03-04	CONFERENCE COMMITTEE	
Elimination of VLF General Government Backfill	\$ 472.0		\$ 0 - 189	OPEN	
Deferral of Mandate Reimbursement	60.8	*	40.0	40.0	
Undesignated Fees: Shift to Courts	26.0		10.0	** 10.0	**
Public Works: Local Street and Road Fund AB 2928	18.0		18.0	OPEN	
Federal Child Support Penalty	10.4		10.4	OPEN	
Child Support Agency Allocation	10.6		12.9	12.9	
County Alcohol and Drug Services	0		3.6	3.6	
Probation: Local Assistance for Training	2.0		2.0	OPEN	
Probation: CYA Sliding Fee Increase	1.9		1.9	1.9	
Worker's Compensation User Fee	1.7		1.7	1.7	
Sheriff: Local Assistance for Training	1.5		0	0	
District Attorney: Various Grants Eliminated	1.3		1.0	1.0	
Public Library: Foundation Grant Reduction Direct / Inter-Library Loan	1.6 .3		3.2 0	1.6 0	
Community Development: ERAF Shift	.2		.2	OPEN	
Repeal of Open Meetings Notice Mandate			.3	OPEN	
Trauma Care (Our Share of \$6.8M County-wide)	.5		.5	OPEN	
<b>TOTAL</b>	<b>\$ 598.6M</b>		<b>\$ 106 – 295M 72.7</b>	<b>\$</b>	

\* Reflects the Auditor's estimate of claims that will be filed for FY 2003-04. Actual claims filed in

FY 2002-03 totaled \$61.1 million.

\*\* Estimate: Formula to be developed by January 2004.

This table represents the loss or deferral (in the case of Mandate Reimbursement) of State funds based upon the Governor's January Budget, his May Revision and the preliminary decisions of the Conference Committee. It does not reflect the actual impact on the County or a department's budget which may be different because they assume a different level of State funding or may be able to offset some or all of the lost revenue.